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FEATURED Q&A

What Can Venezuela Do to Reverse Its Hyperinflation?



Venezuelan President Nicolás Maduro acknowledged Tuesday that his government's economic model has failed. "The responsibility is ours, mine and yours," he told members of his ruling PSUV party. // File Photo: Venezuelan Government.

Q The International Monetary Fund projects inflation in Venezuela will skyrocket to one million percent by the end of the year, with GDP falling approximately 18 percent as oil production stalls. With President Nicolás Maduro in power and no political changes in the foreseeable future, how can Venezuela pull out of its hyperinflation spiral? What measures can the government take to prevent further damage to the economy? What lessons can Venezuelan officials draw from the hyperinflation experiences of other countries in the region, such as Brazil and Peru, as they draft economic policy in the months ahead?

A Claudio Loser, founder and CEO of Centennial Latin America and former director of the Western Hemisphere Department at the International Monetary Fund: "Today, Venezuela is the worst performing economy in the region, if not the world. No country has fallen so far and so persistently from prosperity to dismal poverty. At the center of the crisis is the collapse of monetary and fiscal policy, even now with higher prices for petroleum—virtually the only export item left. At present, the government is talking about monetary reform, and will eliminate five zeros from its currency effective immediately. As things stand, the government would need to reform its currency again by early 2019 or so. Venezuela's numbers show that per-capita GDP has been cut in half since 2013, with no comparable debacle elsewhere in the region, and inflation is unmeasurably high—with estimates being only an educated guess. As notable, the fiscal deficit is about one-third of GDP,

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TODAY'S NEWS

POLITICAL

Investigators Find 'Black Boxes' From Aeroméxico Crash

Investigators have found the flight recorders from the Aeroméxico plane that crashed Tuesday in northern Mexico. All 103 passengers survived, though 97 were injured.

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BUSINESS

Falabella Buying E-Commerce Company Linio

The Chilean retailer is buying the e-commerce company for \$138 million. Falabella has been seeking to grow its online presence.

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POLITICAL

Colombia's Uribe Seeks to Withdraw Resignation From Senate

Former Colombian President Álvaro Uribe, who submitted his resignation from the country's Senate last week, asked that his resignation be withdrawn so that the Supreme Court could continue handling a case against him.

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Uribe // File Photo: Colombian Government.

POLITICAL NEWS

Colombia's Uribe Seeks Withdrawal of Senate Resignation

Former Colombian President and current Senator Álvaro Uribe on Wednesday asked the legislative body to withdraw his resignation from the Senate so that the witness tampering and bribery case that he is facing remains with the country's Supreme Court, *El Tiempo* reported. "I have asked Senator Ernesto Macías, president of Congress, to withdraw, without considering, my resignation letter. For reasons of honor, it has never been in my mind that the Supreme Court won't hear the case for which they are summoning me to testify," Uribe wrote in a posting on Twitter. Macías has said he would halt the proceeding to consider Uribe's resignation, the Associated Press reported. Uribe last week tendered his resignation from the Senate, where he has served since 2014, after the Supreme Court called him to testify in the case. Uribe, who was Colombia's president from 2002 to 2010, said he was stepping down from his Senate seat in order to concentrate on defending himself. However, Uribe's political enemies have accused him of resigning from the Senate so that his case would be in the

jurisdiction of an ordinary court rather than the Supreme Court, which he claims has a bias against him, Reuters reported. Uribe, a mentor of President-elect Iván Duque, is under investigation in a case that he himself began by making accusations against a leftist senator, Iván Cepeda. Uribe accused Cepeda in 2012 of masterminding a plot to falsely connect him to right-wing paramilitaries during visits to imprisoned former fighters, Reuters reported. However, the Supreme Court in February said Cepeda had gathered information from ex-paramilitary groups in the course of his work in the Senate and that he had not exerted pressure over them or paid them. Instead, the court said Uribe was to blame in the matter.

Brazil's Workers' Party Signs Neutrality Deal With Socialists

Brazil's Workers' Party and the Brazilian Socialist Party, or PSB, signed a neutrality agreement ahead of the country's Oct. 7 presidential election, the Workers' Party said Wednesday in a statement. The deal stipulates that the Workers' Party will support several PSB candidates in state governor elections in order to "strengthen the unity of the popular field around the Lula candidacy," the statement said,

NEWS BRIEFS

Investigators Find 'Black Box' Flight Recorders From Aeroméxico Crash

Investigators have found flight recordings from an Aeroméxico airplane that crashed in northern Mexico on Tuesday, BBC News reported. The Embraer jet, heading to Mexico City from Durango, took off during stormy weather and fell moments later. All 103 passengers survived, but 97 were injured. It is still unclear what caused the crash. Mexico will investigate the incident, with help from Brazil, where the airplane was built, and the United States, where the engines were manufactured.

Trains Collide Near Machu Picchu, More Than a Dozen Injured

Two trains from different railway companies crashed Tuesday near the Inca city and popular tourist attraction of Machu Picchu in Peru, injuring more than a dozen foreigners, United Press International reported. PeruRail, one of the two train companies involved in the collision, said 25 passengers had been injured and that an investigation will be subsequently conducted. One of the trains had stopped because protesters were blocking the track, a passenger told state-run news agency Andina.

U.S., Mexico Nearing Deal on Auto Content Rules: Mexican Official

The United States and Mexico are getting close to a deal on auto content rules as they work toward a deal on renegotiating the North American Free Trade Agreement, a top Mexican official said Wednesday, Reuters reported. Guillermo Malpica, who heads Mexico's trade and NAFTA office, said "we are getting close" to an agreement on rules that dictate how much of a vehicle must be made in the United States, Canada or Mexico to qualify for duty-free treatment.

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while the external current account is in surplus. In the dysfunctional foreign exchange rate in place, oil enters for almost free in the budget, but the foreign exchange is not directed to the poor. It is channeled through to privileged sectors—the party, the army and friends—who sell it a premium, or hoard it abroad, while the government prints its way out of its problems. The solution will have to be an overhaul of the exchange system, with a rational pricing and allocation of oil receipts, a deep reform of the fiscal policies, together with a targeted and intelligent support system of the poor. This is easily said, and also doable, but difficult to envisage in the current political regime."

A **Alejandro Grisanti, economist and director of Ecoanalítica in Caracas:** "In Venezuela, you don't talk about the 'perfect storm' anymore. The extent of economic destruction has reached such severe levels that now one refers to the 'perfect hecatomb.' According to Ecoanalítica, June inflation was at 134 percent, and we estimate that it will close the year out at 1.4 million percent. What's making Venezuela's economic crisis so severe is not only that the country is firmly in the grips of hyperinflation, but also that the economy and the oil industry are steadily shrinking. After more than 20 quarters of economic contraction, the government has

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referring to former President Luiz Inácio Lula da Silva, who intends to run as the Workers' Party candidate despite being imprisoned on corruption-related charges since April. The PSB is expected to commit to not back any presidential candidate at its convention on Sunday. This comes as a blow to Democratic Labor Party candidate Ciro Gomes, who comes in third in polling and had sought the PSB's support to boost his numbers, Reuters reported. "The Workers' Party is taking us to the brink of precipice," Gomes said in an interview with GloboNews after losing the PSB's support, O Globo reported. The Workers' Party is expected to nominate Lula at its convention on Saturday, but it remains unclear whether he will be allowed to run. He is expected to name a stand-in as the election approaches in mid-September, Reuters reported.

BUSINESS NEWS

Chile's Falabella Buying E-Commerce Company Linio

Chilean retailer Falabella on Wednesday announced that it is purchasing Latin American e-commerce company Linio for \$138 million, *Diario Financiero* reported. Santiago-based Falabella said it will hold a meeting of shareholders to propose a capital increase of 84.3 million shares, totaling \$800 million directed toward financing the acquisition and further investments. Falabella is seeking to improve its online presence, looking at Linio as a platform to sell its products in eight Latin American countries, including Colombia, Mexico and Argentina. In early July, Chilean media announced Amazon would be investing some \$1 billion in a data center in Chile, but the e-commerce giant has not made any official announcement. "With this acquisition, the company advances its objective to be a leader in e-commerce in the region," said Gastón Bottazzini, general manager of SACI Falabella, in a statement, *Diario Financiero* reported. "Furthermore, Linio will offer our clients a wider range of products from the different businesses that sell on the

THE DIALOGUE CONTINUES

Will AMLO Be Able to Bring Peace and Security to Mexico?

Q **Homicides in Mexico surged in the first half of this year, increasing 16 percent over the same period last year and breaking a record since comparable data collection began in 1997, the Associated Press reported. Over the past 12 years, successive Mexican presidents have declared war against the country's drug cartels, but critics point out the violence continues almost unabated. President-elect Andrés Manuel López Obrador will take charge of the country's security strategy himself once he takes office on Dec. 1, according to an aide. Has Mexico's security and anti-narcotics strategy over the past decade been a failure, or has progress been made? What are the reasons behind the sharp increase in killings this year? What will López Obrador's security agenda look like, and will he be able to curb the country's violence?**

A **Francisco Rivas, general director of Observatorio Nacional Ciudadano in Mexico:** "In four months, the current government will end its term with the worst violence records since 1997. Over the past six years, homicide, kidnapping, drug trafficking and business theft records were broken time and time again. For homicide alone, 2017 had the highest rate in the last 21 years, and there was a 16.94 percent increase in the first half of 2018. According to Observatorio Nacional Ciudadano's estimates, this year will surpass last year with an increase in crime incidents of between 5.5 and 15 percent. Although the current government's responsibility and lack of results are clear,

platform," he added. The company said part of the \$800 million it seeks to raise would be invested in its recently announced partnership with Swedish-based furniture retailer Ikea, Reuters reported. Ikea plans to open its first stores

local authorities also share responsibility for this debacle. Did the war against drug trafficking fail? A yes or no answer does not suffice. Was action against organized crime necessary? Yes. Did the state's strategy have an effect? Yes, it fragmented organized groups' power. Was this the result that the people expected? Absolutely not. Fragmentation brought violence, previously between criminal groups, closer to citizens. The reasons behind the state's lack of success range from negligence of local authorities to strengthen security and justice to the lack of an effective strategy by President Peña Nieto's government for prevention and reaction to the weakness of the administrative and justice systems—abandoned during the last four administrations—to the government's incapacity to weaken corruption and money laundering. President-elect López Obrador must have a clear plan to reduce the crime that affects all Mexicans' security: weaken criminals' revenue, prevent new forms of crime, generate confidence in institutions, break corruption networks that protect criminals, generate incentives so the whole state apparatus functions, mend the penitentiary system, improve social reintegration, and, above all, promote rule-of-law culture among citizens. With less than 100 days before he takes office, it's not clear that such a vision exists."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Wednesday's issue of the Advisor.

in South America under a franchise agreement with Falabella. Shares in Falabella dropped nearly 6 percent after the company made the announcement on Wednesday, the wire service reported.

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destroyed almost 50 percent of the GDP and more than 60 percent of the country's oil production. Unfortunately, nothing indicates that the government is planning to change its course. It's continuing to maintain its subsidy of gasoline and the main public services; continuing to implement its system of controls, which has all but strangled the private sector; continuing to spend more than the revenues it's taking in and closing the budget gap by printing money. It's true that the government plans to announce some adjustments, and possibly a measure or two that may be pointed in the right direction, but which fall far short of what's required for a stabilization plan. A new government has to raise financing to stabilize the economy. The need for fresh resources is so significant that it will be impossible to meet without the backing of an IMF program and without restructuring foreign-currency liabilities. It will be necessary to create an emergency plan that re-establishes access to food and medicine to those most in need. We say a new government, because the current government's ideology and the way the international community has isolated it makes it impossible to create a stabilization plan with international financing."

A **Leonardo Vera Azaf, professor and researcher at UCV-FACES in Caracas:** "Whether in terms of output losses or increases in prices, Venezuela constitutes the largest economic catastrophe in the hemisphere of the last century. Undoubtedly, the biggest obstacle to overcome is hyperinflation. This type of phenomenon occurred in the region in contexts of great financial isolation, extremely high external debt service, internal conflicts and fiscal deficits that could only be financed by the disorderly printing of money. In the case of Venezuela, additional problems have emerged since the economy has been highly regulated and distorted by controls in the exchange market and in the price system. A stabiliza-

tion program to reduce the inflation rate to tolerable levels will require a great effort to get the country out of financial isolation and a shortage of foreign currency. International aid and cooperation will be very important—the country needs financial resources. The elimination of exchange controls and the return to a functional and stable exchange market would help neutralize the explosive dynamics of the black market and anchor expectations. In the same direction, the con-

“Whether in terms of output losses or increases in prices, Venezuela constitutes the largest economic catastrophe in the hemisphere of the last century.”

— Leonardo Vera Azaf

tion of the monetary printing process would also help. For the latter, it is necessary to solve the fiscal gap with transitory financial resources coming from abroad and also with some initial fiscal adjustment. The regime of price controls, which today have become distortions that produce desynchronized adjustments, must be lifted once and for all. Maduro has very little room to maneuver and to deal with the crisis. The government lacks credibility, resources and skills to design a stabilization and reform program. The most Maduro can do is open up to foreign investment, making certain conditions more flexible and eliminating legal obstacles. A radical and credible change in the regime that regulates investment and exploitation in the oil sector can help obtain resources to alleviate the fiscal crisis, but indeed there is not much that he can do."

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